

**HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF LAFOURCHE,
STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL
MEDICAL CENTER)
AND AFFILIATE**

Thibodaux, Louisiana

Audited Consolidated Financial Statements

Years Ended September 30, 2008 and 2007

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 5/13/09

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hospital Service District No. 3 of the
Parish of Lafourche, State of Louisiana

We have audited the accompanying consolidated balance sheets of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) and Affiliate (the "Hospital") as of September 30, 2008 and 2007, and the related consolidated statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2009, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is

an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 14 is not a required part of the basic consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Home LLP". The word "Home" is written in a cursive script, and "LLP" is written in a more formal, blocky font.

Jackson, Mississippi
February 13, 2009

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
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(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2008 and 2007**

This section of the Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) and Affiliate (the "Hospital"), annual financial report provides important background information and management's analysis of the Hospital's financial performance during the fiscal years ended September 30, 2008 and 2007. Please read this section in conjunction with the basic financial statements in this report.

REQUIRED FINANCIAL STATEMENTS

The basic financial statements contained in this report are presented using Governmental Accounting Standards Board ("GASB") accounting principles. These financial statements offer short-term and long-term financial information about the Hospital's activities.

The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures changes in the Hospital's operations over the past year and can be used to determine whether the Hospital has been able to recover all of its costs through its net patient service revenue and other revenue sources.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash from operating, investing, and financing activities and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE HOSPITAL

The balance sheets and the statements of revenues, expenses, and changes in net assets report information about the Hospital's activities. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

2008 FINANCIAL HIGHLIGHTS

The following summarizes the Hospital's financial highlights for the year ended September 30, 2008.

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The Hospital generated \$16,424,000 in cash from operations during the year ended September 30, 2008. Investments in property and equipment totaled \$17,318,000 for the 2008 fiscal year.

The Hospital reported an increase in net patient services revenue of \$1,045,000 in 2008. This was a 1 percent increase compared to 2007.

The Hospital's operating margin was 7.5 percent in 2008 versus 11.5 percent in 2007. The decrease was primarily driven by a decrease in patient revenue due to approximately 1,900 outpatient surgery cases migrating to the joint venture ambulatory surgery center, market driven increases in salaries and additional depreciation expense due to hospital expansion.

Balance Sheets

The Hospital's condensed balance sheets are presented below:

	TABLE 1 September 30,		Dollar	Percent
	2008	2007	Change	Change
	<i>(In Thousands)</i>			
Total current assets	\$ 25,981	\$ 30,731	\$ (4,750)	(15)
Property, plant, and equipment, net	109,509	103,344	6,165	6
Investments	84,569	76,545	8,024	10
Other	1,001	1,090	(89)	(8)
Total assets	<u>\$ 221,060</u>	<u>\$ 211,710</u>	<u>\$ 9,350</u>	4
Total current liabilities	\$ 9,477	\$ 11,405	\$ (1,928)	(17)
Net assets	<u>211,583</u>	<u>200,305</u>	<u>11,278</u>	6
Total liabilities and net assets	<u>\$ 221,060</u>	<u>\$ 211,710</u>	<u>\$ 9,350</u>	4

As shown in Table 1 above, total assets increased by \$9,350,000 or 4 percent, to \$221,060,000 at September 30, 2008, up from \$211,710,000 at September 30, 2007.

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Current Assets

A decrease in current assets resulted primarily from a decrease in cash and accounts receivable. Management invests excess cash in investments. At September 30, 2008, current assets continued to exceed current liabilities. The current ratio remained constant at 2.7 at September 30, 2008, when compared to September 30, 2007. These calculations exclude consideration of the investments designated by the Board of Commissioners for plant and equipment additions and replacements. Including these liquid investments in the calculations would yield substantially higher ratios.

Capital Assets

Table 2 presents the components of the Hospital's capital assets at September 30, 2008 and 2007.

TABLE 2

	September 30,	
	2008	2007
	<i>(In Thousands)</i>	
Land and land improvements	\$ 7,375	\$ 7,371
Building, fixed equipment, and equipment	162,639	160,810
Subtotal	170,014	168,181
Less accumulated depreciation and amortization	(69,033)	(68,201)
Construction in progress	8,528	3,364
Net capital assets	\$ 109,509	\$ 103,344

During fiscal year 2008, the Hospital invested \$17,318,000 in a broad range of capital assets. Net capital assets have increased as the Hospital has enhanced existing facilities and equipment, and the Hospital is in the process of building a new emergency department and food services / cafeteria area.

In Table 3, the Hospital's fiscal year 2009 capital budget projects spending up to \$28,100,000. These projects are expected to be financed from operations. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

TABLE 3

Equipment purchases	\$ 2,900,000
Construction / renovation	19,900,000
Land purchase	5,300,000
Total	<u>\$ 28,100,000</u>

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Net Assets

Table 4 presents the components of the Hospital's net assets at September 30, 2008 and 2007:

TABLE 4

	September 30,	
	2008	2007
	<i>(In Thousands)</i>	
Invested in capital assets, net of related debt	\$ 109,509	\$ 103,344
Unrestricted	102,074	96,961
	<u>\$ 211,583</u>	<u>\$ 200,305</u>

During 2008, total net assets increased \$11,278,000, or 6 percent, as a result of revenue exceeding expenses.

The Hospital purchased \$17,318,000 of capital assets during 2008, which increased the reported amount of net assets invested in capital assets. This increase was offset by depreciation expense of \$9,812,000.

Statements of Revenue and Expenses

A summary of the Hospital's revenues and expenses for fiscal years 2008 and 2007 is presented below:

	TABLE 5			
	Years Ended September 30,		Dollar	Percent
	2008	2007	Change	Change
	<i>(In Thousands)</i>			
Revenue				
Net patient service revenue	\$ 101,463	\$ 100,417	\$ 1,046	1
Other revenue	2,199	1,616	583	36
Total operating revenue	<u>103,662</u>	<u>102,033</u>	<u>1,629</u>	<u>2</u>

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TABLE 5 (continued)

	Years Ended September 30,		Dollar	Percent
	2008	2007	Change	Change
<i>(In Thousands)</i>				
Expenses				
Salaries and wages and employee benefits and payroll taxes	\$ 43,125	\$ 39,875	\$ 3,250	8
Other operating expenses	42,915	41,448	1,467	4
Depreciation	9,812	8,949	863	
Total operating expenses	95,852	90,272	5,580	6
Income from operations	7,810	11,761	(3,951)	(34)
Nonoperating income	3,468	4,301	(833)	(19)
Revenue in excess of Expenses	\$ 11,278	\$ 16,062	\$ (4,784)	(30)

Net Patient Service Revenue

During fiscal year 2008, the Hospital derived 98 percent of its total operating revenue from net patient service revenue. Total net patient service revenue increased \$1,046,000, or 1 percent, in 2008. Overall activity at the Hospital, as measured by inpatient acute discharges, increased by less than 1 percent to 7,330 discharges in 2008 from 7,290 discharges in 2007. Acute patient days decreased 3 percent over prior year, from 31,631 in 2007 to 30,691 in 2008. The average length of stay for acute patients, (excluding newborns), decreased to 4.2 days in 2008 from 4.3 days in 2007. The Hospital also had a decrease in net revenue due to the migration of approximately 3,400 outpatient surgical cases due to the ambulatory surgery center.

Table 6 presents the relative percentages of gross charges billed for patient services by payor for fiscal years 2008 and 2007:

TABLE 6

	Years Ended September 30,	
	2008	2007
Medicare (includes Medicare Replacement)	49%	50%
Managed care	38	37
Medicaid	10	10
Self-pay	3	3
	100%	100%

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Table 7 presents the components of net patient service revenue for fiscal years 2008 and 2007:

	TABLE 7 Years Ended September 30,		Change	
	2008	2007	Dollar	Percent
	<i>(In Thousands)</i>			
Gross patient service charges	\$ 277,341	\$ 271,799	\$ 5,542	2
Contractual and other allowances				
Medicare	92,733	92,224	509	1
Managed care	46,004	44,194	1,810	4
Medicaid	22,882	23,450	(568)	(2)
Other	4,820	2,346	2,474	105
Total contractual allowances	166,439	162,214	4,225	3
	110,902	109,585	1,317	1
Provision for bad debts	9,439	9,168	271	3
Net patient service revenue	<u>\$ 101,463</u>	<u>\$ 100,417</u>	<u>\$ 1,046</u>	<u>1</u>

Gross patient service charges increased \$5,542,000 or 2 percent from prior year primarily due to the addition of anesthesia professional fee revenue. Net patient service revenue, before provision for bad debts, increased \$1,317,000, or 1 percent. Total contractual allowances as a percentage of gross patient service charges were 60 percent for both the current and prior year.

Excluded from gross patient service charges are amounts forgone for patient services falling under the Hospital's charity care policy. These amounts are based on established rates for the services provided. Gross charges of \$1,366,000 were forgone during the current fiscal year compared to \$1,763,000 in the prior fiscal year.

The provision for bad debts increased to \$9,439,000 from the prior year amount of \$9,168,000. This \$271,000 or 3 percent increase is driven primarily by an offsetting decrease in charity care write-offs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Years Ended September 30, 2008 and 2007

Operating Expenses

Employee related expenses increased \$3,250,000, or 8 percent, to \$43,125,000 in the current fiscal year from \$39,875,000 in the prior fiscal year. The increase is mainly due to market driven wage increases that were effective January 2008 and an increase in employees. As a percentage of total revenue, these expenses were approximately 42 percent for 2008 and 39 percent for 2007.

Other operating expenses increased \$1,467,000, or 4 percent, from the prior year. The increase is primarily due to an increase in physician recruiting expenses and additional professional liability costs. As a percentage of total revenue, these expenses were approximately 41 percent for both 2008 and 2007.

Nonoperating Income

Nonoperating income is comprised primarily of investment income and profit from the joint venture. Investment income consists of interest earnings on funds designated by the Board of Commissioners. Other gains/losses that are not directly related to the provision of healthcare services are also classified as nonoperating income. Nonoperating income decreased from the prior year primarily due to the lower interest rates in 2008.

2007 FINANCIAL HIGHLIGHTS

The following summarizes the Hospital's financial highlights for the year ended September 30, 2007.

The Hospital generated \$19,837,000 in cash from operations during the year ended September 30, 2007. Investments in property and equipment totaled \$18,417,000 for the 2007 fiscal year.

The Hospital reported an increase in net patient services revenue of \$4,180,000 in 2007. This was a 4.3 percent increase compared to 2006. The increase was driven by volume increases and the introduction of new services in 2007.

The Hospital's operating margin was 11.5 percent in 2007 versus 17.6 percent in 2006. The decrease was primarily driven by increases in salaries, benefits and additional depreciation expense due to hospital expansion.

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Balance Sheets

The Hospital's condensed balance sheets are presented below:

	TABLE 8			
	September 30,		Dollar	Percent
	2007	2006	Change	Change
	(In Thousands)			
Total current assets	\$ 30,731	\$ 27,382	\$ 3,349	12
Property, plant and equipment, net	103,344	94,194	9,150	10
Investments	76,545	72,668	3,877	5
Other	1,090	368	722	3
Total assets	\$ 211,710	\$ 194,612	\$ 17,098	9
Total current liabilities	\$ 11,405	\$ 10,369	\$ 1,036	10
Net assets	200,305	184,243	16,062	9
Total liabilities and net assets	\$ 211,710	\$ 194,612	\$ 17,098	9

As shown in Table 8 above, total assets increased by \$17,098,000, or 9 percent, to \$211,710,000 at September 30, 2007, up from \$194,612,000 at September 30, 2006.

Current Assets

An increase in current assets resulted primarily from an increase in cash and accounts receivable. Management invests excess cash in investments. At September 30, 2007, current assets continued to exceed current liabilities. The current ratio increased slightly to 2.7 at September 30, 2007, from 2.6 at September 30, 2006. These calculations exclude consideration of the investments designated by the board of commissioners for plant and equipment additions and replacements. Including these liquid investments in the calculations would yield substantially higher ratios.

Capital Assets

Table 9 presents the components of the Hospital's capital assets at September 30, 2007 and 2006.

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Fiscal Years Ended September 30, 2008 and 2007**

TABLE 9

	September 30,	
	2007	2006
	<i>(In Thousands)</i>	
Land and land improvements	\$ 7,371	\$ 5,751
Building, fixed equipment and equipment	160,810	110,508
Subtotal	168,181	116,259
Less accumulated depreciation and amortization	(68,201)	(61,098)
Construction in progress	3,364	39,033
Net capital assets	\$ 103,344	\$ 94,194

During fiscal year 2007, the Hospital invested \$18,417,000 in a broad range of capital assets. Net capital assets has increased as the Hospital has enhanced existing facilities and equipment, and is in the process of building an adjoining medical office building and new space to accommodate inpatient services. These additions significantly exceed the current fiscal year's depreciation expense.

In Table 10, the Hospital's fiscal year 2008 capital budget projects spending up to \$23,000,000. These projects are expected to be financed from operations. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

TABLE 10

Equipment purchases	\$ 5,000,000
Construction / renovation	18,000,000
Total	\$ 23,000,000

Net Assets

Table 11 presents the components of the Hospital's net assets at September 30, 2007 and 2006:

TABLE 11

	September 30,	
	2007	2006
	<i>(In Thousands)</i>	
Invested in capital assets, net of related debt	\$ 103,344	\$ 94,194
Unrestricted	96,961	90,049
	\$ 200,305	\$ 184,243

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During 2007, total net assets increased \$16,062,000, or 9 percent, as a result of revenue exceeding expenses.

The Hospital purchased \$18,417,000 of capital assets during 2007, which increased the reported amount of net assets invested in capital assets. This increase was offset by depreciation expense of \$8,949,000.

Statements of Revenue and Expenses

A summary of the Hospital's revenues and expenses for fiscal years 2007 and 2006 is presented below:

	TABLE 12			
	Years Ended September 30,		Dollar	Percent
	2007	2006	Change	Change
	(In Thousands)			
Revenue				
Net patient service revenue	\$ 100,417	\$ 96,237	\$ 4,180	4
Other revenue	1,616	1,393	223	16
Total operating revenue	102,033	97,630	4,403	5
Expenses				
Salaries and wages and employee benefits and payroll taxes	39,875	35,516	4,359	12
Other operating expenses	41,448	37,429	4,019	11
Depreciation and amortization	8,949	7,517	1,432	19
Total operating expenses	90,272	80,462	9,810	12
Income from operations	11,761	17,168	(5,407)	(31)
Nonoperating income	4,301	3,666	635	17
Revenue in excess of expenses	\$ 16,062	\$ 20,834	\$ (4,772)	(23)

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Net Patient Service Revenue

During fiscal year 2007, the Hospital derived 98 percent of its total operating revenue from net patient service revenue. Total net patient service revenue increased \$4,180, or 4.3 percent, in 2007. Increases in net patient service revenue are due primarily to increases in outpatient volumes, surgery, and the addition of new services. Overall activity at the Hospital, as measured by inpatient acute discharges, increased 4.3 percent to 7,290 discharges in 2007 from 6,988 discharges in 2006. Acute patient days increased 1.4 percent over prior year, from 31,194 in 2006 to 31,631 in 2007. The average length of stay for acute patients, (excluding newborns), decreased to 4.3 days in 2007 from 4.5 days in 2006.

Table 13 presents the relative percentages of gross charges billed for patient services by payor for fiscal years 2007 and 2006:

TABLE 13

	Years Ended September 30,	
	2007	2006
Medicare (includes Medicare Replacement)	50%	49%
Managed care	37	37
Medicaid	10	10
Self-pay	3	4
	100%	100%

Table 14 presents the components of net patient service revenue for fiscal years 2007 and 2006:

TABLE 14

	Years Ended September 30,		Change	
	2007	2006	Dollar	Percent
<i>(In Thousands)</i>				
Gross patient service charges	\$ 271,799	\$ 258,654	\$ 13,145	5
Contractual and other allowances				
Medicare	92,224	86,487	5,737	7
Managed care	44,194	44,817	(623)	(1)
Medicaid	23,450	22,131	1,319	6
Other	2,346	3,295	(949)	(29)
Total contractual allowances	162,214	156,730	5,484	3
	109,585	101,924	7,661	8
Provision for bad debts	9,168	5,687	3,481	61
Net patient service revenue	\$ 100,417	\$ 96,237	\$ 4,180	4

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Gross patient service charges increased \$13,145,000 or 5 percent from prior year primarily due to increased patient volume. Net patient service revenue, before provision for bad debts, increased \$7,661,000, or 8 percent. Total contractual allowances as a percentage of gross patient service charges decreased to 60 percent in the current year from 61 percent in the prior year.

Excluded from gross patient service charges are amounts forgone for patient services falling under the Hospital's charity care policy. These amounts are based on established rates for the services provided. Gross charges of \$1,763,000 were forgone during the current fiscal year compared to \$4,126,000 in the prior fiscal year. This decrease was related to the decrease in write offs related to Hurricane Katrina patients that occurred during the prior fiscal year.

The provision for bad debts increased to \$9,168,000 from the prior year amount of \$5,687,000. This \$3,481,000 or 61 percent increase is driven primarily by an offsetting decrease in charity care write-offs. Also, the hospital received approximately \$1.4 million during fiscal year 2006 in supplemental grants from the State of Louisiana to help mitigate losses incurred from treating self pay patients after Hurricane Katrina.

Operating Expenses

Employee related expenses increased \$4,359,000, or 12 percent, to \$39,875,000 in the current fiscal year from \$35,516,000 in the prior fiscal year. The increase is mainly due to wage increases that were effective January 2007 and an increase in employees. As a percentage of total revenue, these expenses were approximately 39 percent for 2007 and 36 percent for 2006.

Other operating expenses increased \$4,019,000, or 11 percent, from the prior year. The increase is primarily due to an increase in supply expense as a result of volume increases as well as increases in physician recruiting expenses. As a percentage of total revenue, these expenses were approximately 41 percent and 38 percent for 2007 and 2006, respectively.

Nonoperating Income

Nonoperating income is comprised primarily of investment income. Investment income consists of interest earnings on funds designated by the Board of Commissioners. Other gains realized that are not directly related to the provision of healthcare services are also classified as nonoperating income. Nonoperating income increased from the prior year primarily due to the higher interest rates in 2007.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGER

This financial report is designated to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.

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Consolidated Balance Sheets

September 30, 2008 and 2007

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,019,486	\$ 10,775,926
Investments	690,183	681,318
Patient accounts receivable, net of allowance for doubtful accounts of \$6,468,760 and \$6,598,590, respectively	16,309,234	16,335,724
Interest and other receivables	178,191	516,505
Inventories	1,917,851	1,856,809
Prepaid expenses	866,196	565,014
Total current assets	<u>25,981,141</u>	<u>30,731,296</u>
Cash and investments designated by Board for plant and equipment additions and replacements	84,568,452	76,545,088
Other assets	1,001,416	1,090,306
Capital assets, net	<u>109,508,497</u>	<u>103,343,798</u>
Total assets	<u>\$ 221,059,506</u>	<u>\$ 211,710,488</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 4,561,895	\$ 6,068,447
Accrued employee compensation	3,805,094	3,779,087
Amounts due to contractual third-party settlements	1,109,849	1,557,940
Total current liabilities	<u>9,476,838</u>	<u>11,405,474</u>
Net assets		
Invested in capital assets, net of related debt	109,508,497	103,343,798
Unrestricted	<u>102,074,171</u>	<u>96,961,216</u>
Total net assets	<u>211,582,668</u>	<u>200,305,014</u>
Total liabilities and net assets	<u>\$ 221,059,506</u>	<u>\$ 211,710,488</u>

See accompanying notes.

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	2008	2007
Net patient service revenue, net of provision for bad debts of \$9,438,844 and \$9,167,876, respectively	\$ 101,462,517	\$ 100,417,463
Other operating revenue	2,199,076	1,615,575
Total operating revenue	103,661,593	102,033,038
Operating expenses		
Salaries and wages	37,230,496	33,807,785
Employee benefits	5,894,265	6,067,190
Professional fees and services	8,162,116	8,745,298
Supplies and other	18,799,852	18,473,044
Purchased services	9,442,041	8,447,426
Other	6,510,988	5,518,225
Asset impairment	-	263,854
Depreciation	9,812,087	8,949,363
Total operating expenses	95,851,845	90,272,185
Income from operations	7,809,748	11,760,853
Nonoperating revenues and (expenses)		
Investment income	3,279,749	4,363,768
Noncapital grants and contributions	6,072	6,201
Profit (loss) from disposal of capital assets	(456,912)	-
Profit (loss) from joint venture	638,997	(68,715)
Total nonoperating income	3,467,906	4,301,254
Increase in net assets	11,277,654	16,062,107
Net assets, beginning of year	200,305,014	184,242,907
Net assets, end of year	\$ 211,582,668	\$ 200,305,014

See accompanying notes.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
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Consolidated Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007		2008	2007
Cash flows from operating activities			Reconciliation of income from operations to net cash provided by operating activities		
Cash received from patients and third-party payors	\$ 101,379,230	\$ 99,883,472			
Cash payments to suppliers	(44,055,886)	(42,014,675)			
Cash payments to employees	(43,098,754)	(39,647,573)	Cash flows from operating activities		
Cash received from others	2,199,076	1,615,575	Income from operations	\$ 7,809,748	\$ 11,760,853
Net cash provided by operating activities	16,423,666	19,836,799	Adjustments to reconcile income from operations to net cash provided by operating activities		
Cash flows from noncapital and financing activities			Depreciation	9,812,087	8,949,363
Grants and contributions received	6,072	6,201	Provision for bad debts	9,438,844	9,167,876
Cash flows from capital and related financing activities			Profit (loss) from joint venture	638,997	(68,715)
Acquisition of capital assets	(17,318,406)	(18,416,594)	Loss on impairment of asset	-	263,854
Sale of capital assets	884,708	53,135	Changes in operating assets and liabilities		
Net cash used in capital and financing activities	(16,433,698)	(18,363,459)	Patient accounts receivable	(9,412,354)	(9,785,671)
Cash flows from investing activities			Estimated third-party payor settlements	(448,091)	562,824
Investment income	3,279,749	4,363,768	Other receivables and other assets	126,022	(1,215,499)
Purchases of funds designated by board for plant repair and expansion	(80,023,364)	(68,877,022)	Inventories	(61,042)	(271,298)
Sale and maturities of funds designated by board for plant repair and expansion	72,000,000	65,000,000	Accounts payable and accrued expenses	(1,306,552)	245,810
Sale of investments	375,000	375,000	Accrued employee compensation	26,007	227,402
Purchases of investments	(383,865)	(389,511)			
Net cash provided by (used in) investing activities	(4,752,480)	472,235	Net cash provided by operating activities	\$ 16,423,666	\$ 19,836,799
Increase (decrease) in cash and cash equivalents	(4,756,440)	1,951,776			
Cash and cash equivalents, beginning of year	10,775,926	8,824,150			
Cash and cash equivalents, end of year	\$ 6,019,486	\$ 10,775,926			
Supplemental disclosure of cash flow information					
Loss on disposal of capital assets	\$ 456,912	\$ -			

See accompanying notes.

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PARISH OF LAFOURCHE, STATE OF LOUISIANA
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Years Ended September 30, 2008 and 2007**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the accounts and transactions of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) and Affiliate (the "Hospital"). The Hospital is a nonprofit corporation organized by Lafourche Parish. The Lafourche Parish Council, which is the governing authority of Lafourche Parish, Louisiana, appoints members to the Hospital's Board of Commissioners. As a political subdivision, the Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code. This exemption also extends to state income taxes.

Basis of Accounting

The Hospital uses enterprise fund accounting whereby its consolidated financial statements are prepared using the accrual basis of accounting. Under the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types, substantially all revenues and expenses are subject to accrual.

Pursuant to Government Accounting Standards Board ("GASB") Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting"*, as amended, the Hospital applies the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB") issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. FASB Statements issued subsequent to November 30, 1989, are not applicable.

Principles of Consolidation

The consolidated financial statements include the accounts of the Hospital and Thibodaux Regional Surgical Services, Inc., over which the Hospital exerts control. Thibodaux Regional Surgical Services, Inc., is a holding company that owns a 50 percent investment in Thibodaux Surgery Center, LLC, an ambulatory surgery center. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

In the healthcare environment, it is reasonably possible that estimates regarding third-party payments could change in the near term as a result of one or more future confirming events (for example, regulatory actions reflecting local or national audit or enforcement initiatives). For most entities with significant third-party payors revenues, the effect of the change could be material to the financial statements. Where material exposure exists, the uncertainty regarding revenue realization is disclosed in the notes to the consolidated financial statements.

Allowances for doubtful accounts are estimated based on historical write-off and collection percentages, and contractual allowances are estimated based on the terms of third-party insured contracts. Doubtful accounts are written off against the allowance after adequate collection effort is exhausted and recorded as recoveries of bad debts if subsequently collected.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

Cash Equivalents

Cash and cash equivalents include deposits that can be redeemed on demand and highly liquid debt investments with an original maturity of three months or less, including amounts restricted as to use by Board designation.

Patient Accounts Receivable

Patient accounts receivable is reported at estimated net realizable amounts from services rendered from federal and state agencies (under the Medicare and Medicaid programs), managed health plans, commercial insurance companies, workers' compensation, employers and patients, after deduction of allowances for estimated uncollectible amounts.

The allowance for doubtful accounts is based on historical losses and an analysis of currently outstanding amounts. This amount is generally increased by charges to a provision for bad debts, and decreased by write-offs of accounts determined by management to be uncollectible.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Investments

All investments are stated at fair value based on quoted market price. Changes in the fair value of investments are included in investment income.

Inventories

Inventories, consisting primarily of pharmaceuticals and medical supplies, are stated at cost based on the first-in, first-out method or at market, whichever is lower.

Prepaid Expenses

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis.

Investment in Joint Venture

The Hospital is accounting for its investment in a 50 percent owned joint venture that provides surgical and endoscopy services under the equity method of accounting. Using this method of accounting, the Hospital's share of net income (loss) is recognized as investment income (loss) in the Hospital's consolidated statements of revenue and expenses and added to (deducted from) the investment account. The investment in joint venture is included in other assets on the consolidated balance sheet.

Capital Assets, Net

The Hospital records all capital assets acquisitions at cost, except for assets donated to the Hospital. Donated assets are recorded at fair value at the date of donation. The Hospital provides for depreciation using the straight-line method over the estimated useful lives of the assets.

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Reserves* ("GASB 42"), management evaluates assets for potential impairment when a significant, unexpected decline in the service utility of a capital asset occurs.

Compensated Absences

Hospital employees are granted both vacation and sick leave. Accumulated vacation pay is accrued at the balance sheet date because it is payable upon termination of employment. Sick pay accrues, but is not reflected as a liability, because it is not payable upon termination of employment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Net Assets

The Hospital's net assets are classified into three components and are defined as follows:

- Invested in capital assets, net of related debt – this component reports capital assets, including restricted capital assets, net of accumulated depreciation, as reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. As of September 30, 2008 and 2007, the Hospital had no outstanding debt.
- Restricted – this component reports those net assets with externally imposed constraints placed on their use by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There were no restricted net assets at September 30, 2008 and 2007.
- Unrestricted – this component reports net assets that do not meet the definition of either of the other two components.

Operating Revenue and Nonoperating Income

The Hospital's primary purpose is to provide diversified healthcare services to individuals, physicians and businesses in Lafourche Parish and the surrounding communities. As such, activities related to the ongoing operations of the Hospital are classified as operating revenue. Operating revenue includes revenue that is generated from direct patient care, related support services, gains or losses from disposition of operating properties, rental income and sundry revenues related to the operation of the Hospital.

Income, gains and losses from investments not generated from operating funds and those not directly related to the ongoing operations of the Hospital or that occur infrequently, and gifts, grants and bequests not restricted by donors for specific purposes, are reported as nonoperating income.

Net Patient Service Revenue

The Hospital provides medical services to government program beneficiaries and has agreements with other third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. The percentage of total net patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries was approximately 49 percent in 2008 and 51 percent in 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Retroactive settlements are provided for in some of the governmental payment programs outlined above, based on annual cost reports. Such settlements are estimated and recorded as amounts due to or from third-party payors in the consolidated financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in increases to net patient service revenue of \$507,424 in 2008 and \$646,645 in 2007. Estimated settlements through September 30, 2005, for the Medicare and the Medicaid programs have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates required. The effect of any adjustments that may be made to cost reports still subject to review at September 30, 2008, will be reported in the Hospital's results of operations as such determinations are made.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges forgone, based on established rates, totaled approximately \$1,366,000 in 2008 and \$1,763,000 in 2007.

Risk management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the current year presentation. These reclassifications have no impact on net assets or increase in net assets, as previously reported.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents and Investments

The Hospital reports cash, cash equivalents and investments as required by GASB Statement No. 40 ("GASB 40"), *Deposit and Investment Risk Disclosures*, which requires certain disclosures of investment risks related to credit risk, concentration of credit risk and interest rate risk associated with interest-bearing investments. Such disclosures required by GASB 40 and applicable to the Hospital are reflected below.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization ("NRSRO"). The Hospital's investment policy, which conforms to Louisiana state law, does not specifically limit investment in securities based on an NRSRO credit rating, but the policy does designate authorized investments by type.

These authorized investments, within established guidelines, are limited to securities of the U.S. government or its agencies, U.S. government obligations, U.S. and Louisiana municipal bonds, interest-bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment companies or investment trusts and investment trusts consisting of pooled or commingled funds of other hospitals.

Under GASB 40, unless there is information to the contrary, obligations of the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The following table presents each applicable rating grouped by investment type at fair value as of September 30, 2008 and 2007. The following investments are exempt from rating disclosure.

By Investment Type	2008	2007
Cash deposits, operating funds	\$ 4,570,491	\$ 9,403,740
Certificates of deposit	72,375,000	65,375,000
Money market deposits	14,332,630	13,223,592
Total cash and investments	<u>\$ 91,278,121</u>	<u>\$ 88,002,332</u>
By Balance Sheet Category	2008	2007
Cash and cash equivalents	\$ 6,019,486	\$ 10,775,926
Short-term investments	690,183	681,318
Designated assets by Board for plant equipment additions and replacements	84,568,452	76,545,088
Total cash and investments	<u>\$ 91,278,121</u>	<u>\$ 88,002,332</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Continued

Concentration of Credit Risk

The Hospital's investment policy, in accordance with state statute, restricts investments in U.S. agencies to 50 percent of total investments. Investments in open-end and closed-end management type investment companies and investment trusts are limited to 20 percent of total investments. At September 30, 2008 and 2007, management believes the Hospital complies with this policy.

GASB 40 indicates that concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than 5 percent of the market value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments from the disclosure requirement. At September 30, 2008, the Hospital had no investments requiring concentration-of-credit-risk disclosure.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Hospital will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Hospital's formal investment policy is governed by and in conformity with Section 39:2955 of the Louisiana Revised Statutes, which establishes guidelines for depository and investment activity as follows:

- In accordance with statutes of the State of Louisiana, the Hospital maintains its deposits at financial institutions authorized by the Board of Commissioners.
- The collateral for public entity deposits in financial institutions is held in the name of the State Treasurer of Louisiana under a program established by the Louisiana State Legislature and is governed by Section 33:2955 of the Louisiana Revised Statutes. Under this program, the Hospital's funds are protected through a collateral pool administered by the State Treasurer.
- Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits.

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Note 2. Continued

- In the event of a financial institution's failure, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

In accordance with GASB 40, investments in external investment pools and in open-end mutual funds is not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At September 30, 2008, deposits and investments requiring custodial credit risk disclosure totaled \$91,278,121, all of which were insured or collateralized in accordance with state statute.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the Hospital's segmented time distribution investment maturities in years by investment type as of September 30, 2008 and 2007.

2008

By Investment Type	Fair Value	Years < 1
Cash deposits, operating funds	\$ 4,570,491	\$ 4,570,491
Certificates of deposit	72,375,000	72,375,000
Money market deposits	14,332,630	14,332,630
Total cash and investments	<u>\$ 91,278,121</u>	<u>\$ 91,278,121</u>

2007

By Investment Type	Fair Value	Years < 1
Cash deposits, operating funds	\$ 9,403,740	\$ 9,403,740
Certificates of deposit	65,375,000	65,375,000
Money market deposits	13,223,592	13,223,592
Total cash and investments	<u>\$ 88,002,332</u>	<u>\$ 88,002,332</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Accounts Receivable and Other Assets

The Hospital provides services primarily to the residents of Lafourche Parish, Louisiana and surrounding communities without collateral. An allowance for doubtful accounts is provided in an amount equal to the estimated losses to be incurred in collection of the receivables. The allowance is based on historical collection experiences and a review of the current status of the existing receivables. The mix of receivables from patients and third-party payors, at September 30 is as follows:

	2008	2007
Receivable from patients and their insurance carriers	\$ 16,038,131	\$ 16,613,047
Receivable from Medicare	6,195,798	5,963,452
Receivable from Medicaid	544,065	357,815
Total patient accounts receivable	22,777,994	22,934,314
Less: allowance for bad debts	(6,468,760)	(6,598,590)
Patient accounts receivable, net	<u>\$ 16,309,234</u>	<u>\$ 16,335,724</u>

A summary of other assets follows:

Other Assets

	2008	2007
Assets held in trust	\$ 719,873	\$ 559,010
Investment – Thibodaux Surgical Center, LLC	281,543	531,296
Total other assets	<u>\$ 1,001,416</u>	<u>\$ 1,090,306</u>

In connection with employment contracts between the Hospital and a key officer, a provision has been made for future compensation which is payable upon termination of employment without cause. In the event of termination without cause, an amount equal to two times the key officer's salary would be paid out. The assets held in trust are carried at fair value and are included in other assets in the consolidated balance sheets. The balance was \$719,873 and \$559,010 at September 30, 2008 and 2007, respectively.

Note 4. Retirement Plan

The Hospital sponsors an employee retirement plan (the "Plan") under Section 457(b) of the Internal Revenue Code. The Plan covers all employees age 21 or older with one year of service in which at least 1,000 hours were worked. The Plan provides that the Hospital, at its option, may make

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

contributions to the Plan based on a discretionary percentage of eligible employees' base compensation, as defined, as well as matching contributions. The Hospital's discretionary contribution percentage was 4 percent for the years ended September 30, 2008 and 2007. The Plan permits tax deferral by employees of amounts, combined with the Hospital's contribution, up to a maximum of 25 percent of their base compensation, subject to certain limits. Employer contributions vest at 20 percent per year until they reach 100 percent at the end of year five.

Employee contributions are immediately vested.

Retirement expense recorded by the Hospital for the years ended September 30, 2008 and 2007, totaled \$782,446 and \$679,025, respectively, or approximately 4 percent of covered payroll in each year.

Note 5. Contingencies

The Hospital participates in the State of Louisiana Patient Compensation Fund (the "Fund") for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000, plus interest and legal costs. The Fund provides coverage on a claims-made basis for claims over \$100,000 and up to \$500,000. The Hospital is also insured on a claims-made basis through a commercial insurance carrier for malpractice losses up to \$6,000,000 per occurrence, with a total annual limit of \$8,000,000, and with a self-insurance retention of \$100,000 per occurrence up to a maximum of \$300,000 in the aggregate per year.

The Hospital has been named as defendant in lawsuits alleging medical malpractice. Management of the Hospital, using information provided by its commercial insurance carrier, has accrued in the financial statements its best estimate of probable contingent losses on these claims and on estimated claims incurred but not reported. Changes in the Hospital's claims liability amount during the past two years is reflected below.

Year Ended September 30,	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	End of Year Liability
2008	\$ 800,200	\$ 540,259	\$ (365,459)	\$ 975,000
2007	\$ 937,400	\$ 201,039	\$ (338,239)	\$ 800,200

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Note 5. Continued

The Hospital is self-insured for workers' compensation and for employee health insurance up to \$100,000 per claim respectively. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. The Hospital purchased commercial insurance that provides coverage for workers' compensation and employee health claims in excess of the self-insured limits.

The workers' compensation and health insurance claims liabilities at September 30 are based on the requirements of GASB Statement No. 10. This statement provides that a liability for claims be reported if information prior to the issuance of the consolidated financial statements indicates that it is probable that a liability has been incurred as the date of the consolidated financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the past two years is reflected below:

Year Ended September 30,	Beginning of Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	End of Year Liability
2008	\$ 1,205,000	\$ 2,816,600	\$ (3,222,000)	\$ 799,600
2007	\$ 1,990,000	\$ 2,349,000	\$ (3,134,000)	\$ 1,205,000

Note 6. Postemployment Benefits

The Hospital provides healthcare benefits to retired Hospital employees and their families. Employees with at least ten years of service and who are ages 55 or older at retirement are eligible to participate. Plan participants are required to contribute 100 percent of the Plan's monthly premium. The Hospital records the excess benefits over the contributions as expense as the benefits are used. For the fiscal year ended September 30, 2008, nine retired employees participated in the Plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Capital Assets

Capital assets at September 30, 2008 and 2007, and the changes for each year, consisted of the following:

	2008	2007
Land	\$ 1,737,625	\$ 1,737,625
Land improvements	5,620,570	5,616,320
Building and fixed equipment	105,021,669	103,208,660
Major moveable equipment	57,600,282	57,617,955
Capital assets, at cost	169,980,146	168,180,560
Less accumulated depreciation	(68,999,569)	(68,201,158)
	100,980,577	99,979,402
Construction in progress	8,527,920	3,364,396
Capital assets, net	\$ 109,508,497	\$ 103,343,798

Depreciation expense for the years ended 2008 and 2007 totaled \$9,812,087 and \$8,949,363 respectively.

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Years Ended September 30, 2008 and 2007

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Continued

Capital assets activity for the year ended September 30, 2008 was as follows:

	Beginning	Additions	Retirements	Ending
Capital assets not being depreciated				
Land	\$ 1,737,625	\$ -	\$ -	\$ 1,737,625
Construction in progress	3,364,396	5,163,524	-	8,527,920
Total capital assets not being depreciated	5,102,021	5,163,524	-	10,265,545
Other capital assets				
Land improvements	5,616,320	4,250	-	5,620,570
Building and fixed equipment	103,208,660	1,813,009	-	105,021,669
Major moveable equipment	57,617,955	10,337,623	(10,355,296)	57,600,282
Total other capital assets at historical cost	166,442,935	12,154,882	(10,355,296)	168,242,521
Less accumulated depreciation	(68,201,158)	(9,812,087)	9,013,676	(68,999,569)
Other capital assets, net	98,241,777	2,342,795	(1,341,620)	99,242,952
Total capital assets, net	\$ 103,343,798	\$ 7,506,319	\$ (1,341,620)	\$ 109,508,497

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Continued

Capital assets activity for the year ended September 30, 2007 was as follows:

	Beginning	Additions	Retirements	Ending
Capital assets not being depreciated				
Land	\$ 1,737,625	\$ -	\$ -	\$ 1,737,625
Construction in progress	39,033,002	17,415,873	(53,084,479)	3,364,396
Total capital assets not being depreciated	40,770,627	17,415,873	(53,084,479)	5,102,021
Other capital assets				
Land improvements	4,013,354	1,602,966	-	5,616,320
Building and fixed equipment	61,867,898	41,356,408	(15,646)	103,208,660
Major moveable equipment	48,640,134	10,861,972	(1,884,151)	57,617,955
Total other capital assets at historical cost	114,521,386	53,821,346	(1,899,797)	166,442,935
Less accumulated depreciation	(61,098,457)	(8,949,363)	1,846,662	(68,201,158)
Other capital assets, net	53,422,929	44,871,983	(53,135)	98,241,777
Total capital assets, net	\$ 94,193,556	62,287,856	(53,137,614)	103,343,798

Note 8. Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through September 2012. Total rental expense for the year ended September 30, 2008 and 2007, for all operating leases was approximately \$1,273,000 and \$1,296,000, respectively. The following is a schedule by year of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
AND AFFILIATE**

Years Ended September 30, 2008 and 2007

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Continued

Year Ending September 30,	Amount
2009	\$ 299,677
2010	253,390
2011	77,289
2012	16,813
Total	<u>\$ 647,169</u>

The Hospital leases office space in a medical office building and clinical facilities, generally to members of its medical staff, under operating leases with terms ranging up to five years. The future minimum lease payments to be received from these leases follows:

Year Ending September 30,	Amount
2009	\$ 1,300,034
2010	1,207,590
2011	1,096,650
2012	642,714
2013	167,598
Total	<u>\$ 4,414,586</u>

The cost of assets held for lease totaled \$22,900,000 and \$21,407,000 at September 30, 2008 and 2007, respectively. Related accumulated amortization was approximately \$1,551,000 and \$1,564,000 at September 30, 2008 and 2007.

Note 9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. The mix of accounts receivables from third-party payors at September 30, 2008 and 2007 was as follows:

	2008	2007
Patients and their insurance carriers	67.3%	70.2%
Medicare	28.8	28.4
Medicaid	3.9	1.4
	<u>100%</u>	<u>100%</u>

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
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Years Ended September 30, 2008 and 2007

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Governmental Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers in recent years. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Note 11. Net Patient Service Revenue

The Hospital has agreements with governmental and other third-party payors that provide for payments to the Hospital for services rendered at amounts different from its established rates. Patient revenue is reported net of contractual adjustments arising from these third-party arrangements, as well as net of provisions for bad debts. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute, rehabilitation and outpatient services rendered to Medicare beneficiaries are paid primarily by prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medicare bad debts and disproportionate share payments are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology (per diem). The Hospital is reimbursed at a tentative prospective rate which is adjusted annually based on the annual cost reports as submitted by the Hospital and audits by the Medicaid fiscal intermediary.

Other

The Hospital has also entered into payment agreements with certain other commercial insurance

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
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Years Ended September 30, 2008 and 2007

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Continued

carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

The composition of net patient service revenue as of September 30 includes:

	2008	2007
Gross patient service revenue	\$ 277,340,415	\$ 271,798,633
Less:		
Provisions for contractual adjustments	166,439,054	162,213,294
Provisions for bad debts	9,438,844	9,167,876
Net patient service revenue	<u>\$ 101,462,517</u>	<u>\$ 100,417,463</u>

Note 12. Investment in Joint Venture

During 2007, the Hospital purchased a 50 percent ownership interest in a joint venture that provides surgical and endoscopy services. The Hospital does not have the ability to exercise significant influence over the entity. The following is summarized unaudited financial information for the joint venture as of and for the years ended September 30, 2008 and 2007.

	2008	2007
Cash	\$ 193,688	\$ 455,180
Patient accounts receivable, net	410,262	807,800
Capital assets, net	1,451,934	2,123,192
Other assets	171,247	28,966
Total assets	<u>\$ 2,227,131</u>	<u>\$ 3,415,138</u>
Current liabilities	\$ 438,390	\$ 837,623
Long-term liabilities	1,228,426	1,514,946
Members' capital	560,315	1,062,569
Total liabilities and capital	<u>\$ 2,227,131</u>	<u>\$ 3,415,138</u>
Net patient service and other revenues	\$ 5,551,131	\$ 1,021,422
Operating expenses	<u>(4,273,138)</u>	<u>(1,158,853)</u>
Net income (loss)	<u>\$ 1,277,993</u>	<u>\$ (137,431)</u>

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Recent Reporting and Disclosure Developments

Accounting Pronouncements Issued Not Yet Adopted

Government Accounting Standards Board Statement No. 45 ("GASB 45")

The Hospital will adopt GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during fiscal year 2009. This Statement addresses how state and local governments should account for and report costs and obligations related to post employment benefits ("OPEB"). Management has not evaluated the effect of adopting this Statement.

Governmental Accounting Standards Board Statement No. 49 ("GASB 49")

This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007. Management has not evaluated the effect of adopting this standard.

Governmental Accounting Standards Board Statement No. 51 ("GASB 51")

This Statement requires that all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Management has not evaluated the effect of adopting this standard.

Note 14. Subsequent Events (Unaudited)

During January 2009, the Hospital purchased an additional 38.8 acres of land that is to be used for capital expansion, for cash in the amount of \$5,260,000.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Hospital Service District No. 3 of the
Parish of Lafourche, State of Louisiana

We have audited the consolidated financial statements of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) and Affiliate as of and for the year ended September 30, 2008, and have issued our report thereon dated February 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) and Affiliate's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) and Affiliate's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) and Affiliate's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a

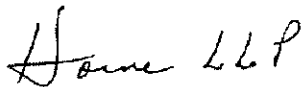
misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) and Affiliate's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, *noncompliance with which could have a direct and material effect on the determination of financial statement amounts*. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Commissioners, Management, and the Office of the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Home LLP".

Jackson, Mississippi
February 13, 2009